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ISAD(G) Reference Code: WB IBRD/IDA 03 EXC-10-4549S

Series: Contacts - Member Countries files

Sub-Fonds: Records of President Robert S. McNamara

Fonds: Records of the Office of the President

Digitized: <June 28, 2013>

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Washington, D.C.

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Panama Papers

Contacts
India (1969-1970)

THE WORLD BANK GROUP
Archives



1771075

A1993-012 Other # 8

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Contacts with member countries: India - Correspondence 03

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WBG Archives

#1

OFFICE MEMORANDUM

TO: Mr. McNamara

DATE: May 7, 1969

FROM: I. P. M. Cargill *I.P.M.*SUBJECT: G. D. Birla

Birla is coming to see you at 11:30 a.m. this morning. I gather you met him in Calcutta and must know the background of his family. He is over here looking for finance for his fertilizer project and will probably raise the subject with you. He says he does not want to borrow from the Bank because he does not wish to ask for a Government guarantee. This may be true for his part but it is also probably true that the Government would be reluctant to give a guarantee for a Birla project in view of the Birla reputation and their past relations with the Government. He does not want to turn to IFC because IFC will not make a straight loan without an equity participation. He is going over to San Francisco to have a meeting with Edgar Kaiser and George Woods to discuss this. In the meantime I have told him the most likely sources of finance for this purpose are Japan and the U.K. I have undertaken to write to the U.K. for him.

President has seen

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 9, 1969

FROM: Gregory B. Votaw

SUBJECT: INDIA - Visit of Mr. Asoka Mehta

1. Asoka Mehta is calling on you at noon tomorrow, July 10, 1969. Mr. Cargill and I will also be present.
2. Mehta is on a private world tour. He started in Delhi on May 9 and has come through Iran, Turkey, East Europe (was in Moscow the first week of June), Sweden, Germany, Belgium, France, England, Holland and Canada. In addition to Washington he will visit in Boston and New York, before going to Rio, Lima, Mexico, San Francisco and Tokyo. He will spend most of August in the Far East (Taipei, Hong Kong, Manila, Singapore, Jakarta, Bangkok) and September in Africa. As I understand it he plans to return to Delhi from Algiers on October 4 with a three-day stopover in Tel Aviv.
3. As you know, some years ago he occupied a leading position in the Government and as such he had many dealings with the Bank. Today he is still a member of the Indian Parliament, although he resigned his ministerial post last summer when the Government of India failed to take a strong stand against the Russian intervention in Czechoslovakia. He is taking advantage of this semi-retired position to visit all over the world in order to judge for himself the prospects for peace, social justice, democratic forms of government and economic development.
4. Mehta has long been identified with Indian socialism. He helped found the Congress Socialist Party and in the early 1960's was Deputy Leader of the Praja Socialist Party group in Parliament. He participated actively in the freedom movement and was imprisoned on several occasions.
5. Mehta is an economist, having studied this subject as a young man and having published a number of books on political-economic topics since then. He became most intimately involved with India's economic management in 1963 when he was named Deputy Chairman of the Planning Commission; in January 1966 he became Minister for Planning. After the elections of 1967 he was given the portfolio of Petroleum and Chemicals which he held until his resignation last year. While in this position he was of course very much concerned with India's fertilizer program; Tata's felt that with his resignation they had lost an influential supporter of their fertilizer project.
6. Mehta's influence grew during the brief months when Lal Bahadur Shastri was Prime Minister and reached its peak during the first year of Mrs. Gandhi's Government. With Sub Ra Maniam he was very influential

President has seen

in liberalizing the economy and bringing about other important economic reforms. He became most closely associated with the Bank in May 1966 during what we have come to call the Woods-Mehta talks. These talks were an outcome of the Bell Mission and outlined some new directions for India's economy. Mehta led the Government's delegation and was generally well respected for his conduct of the discussions.

7. Many months before he left the Government he had become impatient with Mrs. Gandhi's indecisiveness and her tendency to move very slowly on the liberalizing path favored by the Bank. In my most recent talks with Mehta earlier this year, he expressed vigorous opposition to the present Government's tendency toward drift and its unwillingness to offer India the dynamic leadership necessary for an effective development program.

8. As you may recall from your discussions with Mehta last November he speaks in such a small voice that it is sometimes hard to follow what he is saying but his observations are frequently original and usually worth the effort of trying to hear them.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. G. Votaw) DATE: July 16, 1969
FROM: A. F. Kirk *AK*
SUBJECT: INDIA - Your Meeting with Mr. Dinesh Singh

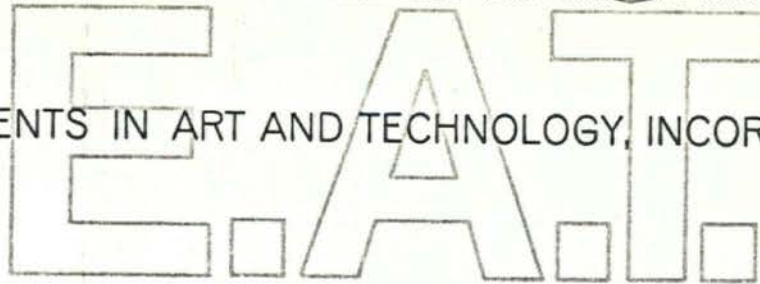
1. I understand that you would like some information on the proposed tenth Indian Railways project which was raised last night in conversations you had with Mr. Dinesh Singh and Mr. Jagannathan.
2. The appraisal mission expects to release its report on the proposed project of \$40 million late this week. The appraisal mission's report has been delayed by various factors, principal among which are:
 - (a) efforts were made by this mission to look at certain aspects of the Railways more closely than heretofore; for example, manufacturing policy, the transportation of food grain, possible excess ordering of freight cars and progress made in phasing out of steam locomotives, and
 - (b) the mission, by reason of pressures on the Transportation Projects Department to process other lending proposals, comprised a relatively inexperienced team including a consultant unfamiliar with IBRD work which has necessitated a considerable amount of rewriting of the draft report.
3. Mr. Jagannathan has been kept fully informed of the progress being made by the mission and had advised his authorities in India last week that negotiations were expected for mid-August - this timing still stands and our expectation is that, subject to the satisfactory completion of negotiations, the proposed credit would be presented to the Board in early September.

President has seen.

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AUG 21 REC'D

EXPERIMENTS IN ART AND TECHNOLOGY, INCORPORATED



August 19, 1969

Mr. Robert S. McNamara
President
World Bank
1818 "H" Street, N.W.
Washington, D.C. 20433

Mr. Cargill
August 21, 1969

Dear Mr. McNamara:

I am writing you regarding the development of a national television system for education and communication for India, the pilot project for which is now being initiated by the Indian Government in collaboration with NASA, UNDP, and other organizations. A nationwide communication and education network using the latest developments in technology and education techniques could, in the next 10 to 15 years, provide the quantum jump that the Indians are looking for in their social development.

Our organization has been working with Dr. Vikram Sarabhai, Chief of the Atomic Energy Commission, New Delhi, who is heading this project, to develop evaluation techniques for determining what developments in technology can be applied to the Indian system. We feel this is an essential question, from the point of view both of the long-term effectiveness of the system, and of gaining the interest and commitment of the world scientific and technical community, which will be necessary for a project of this scale.

During a meeting with Dr. Sarabhai in Delhi a few weeks ago, we decided that it would be fruitful, at this point, to meet with you to discuss the involvement of the World Bank in this project. Dr. Sarabhai will arrive in New York August 28, and he asked me to contact you to set up a meeting, either on Friday, August 29, or during the week of September 1st.

Sincerely,

Billy Klüver

Dr. Billy Klüver
President
Experiments in Art and Technology

BK/lr

cc: Dr. Vikram Sarabhai

*Sept 18 (9. am)
12 noon*

Changed to 12:30 lunch

*Mr. Shuff called to confirm
Mr. S. would lunch alone
w/ Mr. McN.*

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OFFICE MEMORANDUM CONFIDENTIAL

TO: Records

DATE: October 6, 1969

FROM: Alexander F. Kirk *AK*

INDIA -

SUBJECT: / Delegation Meeting with Mr. McNamara,
September 22, 1969 and October 6, 1969

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WBG ARCHIVES

1. Members of the Indian delegation to the 1969 Annual Meeting met with Mr. McNamara on Monday, September 22, at 11:00 A.M. The delegation was headed by Mr. P. C. Sethi, Minister of State, Ministry of Finance; the other members were Messrs. I. G. Patel, L. K. Jha, Jagannathan and Shroff. In addition to Mr. McNamara the Bank was represented by Messrs. Knapp, Cargill, Votaw and Kirk.
2. Mr. Sethi thanked Mr. McNamara for receiving the delegation and for the recent Loan and Credit to the P&T as well as for the proposed \$55 million credit to the railways. He then turned to the position of India in the Bank and the Fund and said that the Prime Minister was concerned that after 25 years there was a possibility that India might lose her right to appoint an Executive Director to the Bank Board as a consequence of possible changes in Fund quotas. The Prime Minister's main concern, he said, was public opinion in India and the less developed world. Mr. Jha amplified the Minister's statement by referring to the fact that there was no quinquennial review in the IBRD as there was in the IMF and that the loss by India of her right to appoint a Director would look especially bad in public eyes since the Bank was a developmental body and India had been the only LDC with the right to appoint her own Director. He said that the Bank was not obliged to follow the Fund pattern and he asked why it should.
3. Mr. McNamara said that so far as the relationship between Bank subscriptions and Fund quotas was concerned there was a matter of precedent - Bank subscriptions had always followed the pattern set by the Fund and indeed it was in the interests of the less developed countries that this should be so, since the privilege of an increased quota was followed by an obligation to increase the share capital of the Bank. He explained that this specific issue had not yet been considered by the Bank and that there were resolutions pending before the Fund for both special and overall increases in quotas. At this time he was not sure what recommendation would be made. He went on to say that if precedent were to be followed there would be little effect on India, which would still have a large number of votes and accordingly a representative on the Board. To Mr. Sethi's point that the impact on Parliament and public opinion would be adverse, Mr. McNamara said he thought it would depend on how any change were presented.
4. The members of the Indian delegation indicated that while they agreed to the principle of more Bank subscriptions being in the interests of less developed countries they could not see why an increase should be discriminatory. India wanted to stay the fifth largest shareholder and was prepared to contribute additional sums to remain so. Dr. Patel said

it was not logical for the Bank to follow the Fund in this matter and he felt if India were to lose her seat the Bank's image would be adversely affected. Mr. McNamara said that there was logic involved although he was not prepared to say at this time that it would necessarily be followed in this instance. The logic was that an increase in a Fund quota is a benefit which carries with it a corresponding obligation to an increased subscription to the Bank. Mr. Knapp pointed out that this relationship had its origins in Bretton Woods.

5. The discussion of India's position in the event of quota changes continued for some time with Mr. Jha seeking to draw an analogy with rights' issues by joint stock companies and stating that in the absence of any legal backing, a change in the IBRD Board would be misunderstood in the less developed world. He said that there was a greater affinity between IDA and the Bank than between the Fund and the Bank and if there were to be no change in IDA voting there should be none in the Bank. To this Mr. McNamara said there might possibly be a change in IDA and referred to the March 8, 1968 resolution of the Directors under which he would have to report on adjusting voting rights. He appreciated the Government of India's views but emphasized the common interests of India and the Bank, namely the need to raise additional resources for development assistance at a time when it was increasingly difficult to find such resources. He said India's problem was to get more aid, especially from the U.S., Germany and Japan. He was frankly depressed at the views expressed at a recent meeting of representatives of Part I countries where, with a few exceptions (notably Canada and the U.S.), the view was expressed that his present proposal for committing IDA resources obtained through the second replenishment was at too fast a rate and was looked upon as prejudicing the third replenishment rate. He only mentioned this because he wanted to stress that aid was a sensitive issue, and while India was concerned with voting rights he was concerned with the need to raise funds.

6. The Indian representatives repeated their earlier arguments about having a uniform increase and the need for the developing countries to have their views adequately represented on the Board, to which Messrs. McNamara and Knapp replied that by foregoing special increases through calling on everybody to increase their subscriptions to the Bank would pose a problem with those Part I countries who would not obtain a special increase in Fund quotas. Mr. McNamara concluded by saying that he would consider all options. Mr. Cargill added that increased subscriptions by such countries as Japan, Italy and Canada would mean that the Bank would have access to additional convertible currencies at zero interest.

7. Mr. Sethi then raised India's need for a greater proportion of its aid to be in the form of non-project assistance. Mr. McNamara said that a real problem was the U.S. shortfall of aid to India which was likely to be close to \$200 million. He added that there was a distinct possibility of there being no aid bill at all this year, which would mean aid at last year's level on the basis of the passage of a continuing resolution.

While the situation was bad this year, it was worse for what it portends for the third replenishment. Mr. McNamara cited instances of Federal cutbacks in essential and popular domestic programs as evidence of the administration's difficulties in finding resources. On the specific question of program lending, he referred to the December 3 meeting of the Executive Directors at which there was so much dissent. He quoted extracts from the minutes of the meeting and mentioned the difficulties involved in having the minutes finally approved. He also quoted from the Board meeting held on January 14, 1969, at which the last credit for industrial imports (Credit No. 138-IN) was approved. He thought that as a result of the meetings it should be possible to get through the relatively small amount of \$60 million contemplated for the next industrial imports credit on the basis of there being no retro-activity.

8. Mr. McNamara stressed that the need was not program loans so much as the flow of foreign exchange into India which could equally well be accomplished by building up an adequate pipeline of projects. He was conscious of the need for speedy disbursements and that was why he was glad to have the tenth Railways project proposed as well as the third P&T project. However, a larger project pipeline had to be developed, including high priority sectors such as fertilizers. Dr. Patel said that in bilateral discussions the Part I countries indicated they were prepared to go along with program lending, but seemed to express a different view when it came to consideration by the Executive Directors. Mr. Cargill pointed out that the program issue was an old one, and he referred to the case of Australia where it was stopped and of its impact on the Bank's lending to Japan. As for the immediate future, Mr. McNamara felt that in due course the ED's may well be more favorably disposed toward program lending, and he thought the Indian delegation should seek to persuade Part I countries, especially Japan and Germany, of the need for such assistance. He again stressed the need to develop projects, in particular fertilizers, since he wished to destroy the current impression in India that the Bank would not finance public sector industries; he also wished to demonstrate to the Board that we did have an adequate list of projects in India.

9. Mr. McNamara told the delegation that he needed their help on the third replenishment and hoped they would discuss it in the course of the Annual Meeting with other countries. There was antagonism toward the amount of aid given to India which was based on ignorance, and while he was continuing to explain the situation to the various governments, India should argue its own case as well, especially with the United Kingdom and Japan.

10. In conclusion Mr. McNamara mentioned his discussions with Dr. Sarabhai and stated that the Bank would be happy to look at the nuclear project; at first sight it appeared to make good economic sense as compared with some proposals elsewhere which appeared to be designed merely to enhance a country's status rather than aid economic growth. He expressed the same interest in the TV satellite proposal also mentioned by Dr. Sarabhai.

11. During a conversation with Mr. McNamara on October 6, Dr. I. G. Patel made the following points:

(i) The Bank's relationships with India would be severely damaged were India to lose her permanent seat on the Board as a result of "special increases" in subscriptions to the Bank's capital. Patel believed this problem could be avoided if the Bank were to pursue one of the following courses of action, which he listed in order of desirability:

- (a) Defer consideration of an increase in the Bank's capital until after the Third Replenishment had been negotiated.
- (b) Provide for a "general increase" in subscribed capital, in the ratio of present subscriptions.
- (c) Provide for "special increases" in the Bank capital and permit India a "special increase" of such size as to assure retention of her permanent seat on the Board.
- (d) Accompany any increase in the Bank's capital which would deny India a permanent seat on the Board with a statement that the procedures governing permanent representation and relative voting power were to be restudied and revised. Patel suggested that such a revision might provide for five permanent seats for Part I countries and three for Part II countries, possibly with rotation among the Part II countries. He emphasized that the loss of India's permanent seat could be made more palatable in India if it were to be accompanied by an increase in the total voting power of Part II countries.

(ii) It would be desirable to avoid any direct link between the action required to assure competent management in the public fertilizer plants which the Bank would finance and the action required to improve the management in existing plants. Patel agreed that the latter was necessary but hoped that it would not be a condition of our loans for the public plants. After discussing the point with Mr. Cargill, Mr. McNamara told Patel that he would be willing to support parallel but "unlinked" negotiations.

AFKirk/RSMcNamara/pop

cc: Messrs. Knapp
Cope
Cargill
Votaw
Melmoth
Gilmartin
Christoffersen

Mr McNamara:

Please advise

OFFICE MEMORANDUM

TO: Mr. Leif E. Christoffersen

DATE: October 9, 1969

FROM: S. Jagannathan

lee
10/9/69

SUBJECT: Appointment for Mr. T.N. Kaul

Mr. T.N. Kaul, Foreign Secretary, Ministry of External Affairs, Government of India, is visiting the United States shortly as the leader of the Indian delegation for the periodic (annual ~~or~~ ^{even} or bi-annual ~~or~~ whenever possible) bilateral talks with the U.S. Government. Mr. Kaul (who holds the official position corresponding to Permanent Under Secretary of State in the Foreign Office in the Government of the United Kingdom) will be having talks with Mr. Richardson's team.

2. Mr. Kaul would like to pay a courtesy call on Mr. McNamara during the course of which he could give any information desired regarding India's relations with her neighbouring countries who are members of the Bank. An appointment for Mr. Kaul is sought for a time convenient to Mr. McNamara on the 14th or the 15th of October. If neither of these dates is convenient, the 18th of October would be possible if this is convenient to Mr. McNamara.

S. Jagannathan

Should we say No ?
or Oct 14 ?
" 15 ?
" 18 ?

10/9

10/15 5 PM

known

Informed Mr Jagannathan
by phone
lee 10/9/69

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November 3, 1969

Meeting in Mr. McNamara's Office, October 31, 1969

Present: Messrs. McNamara, Jagannathan and Shroff

Mr. Jagannathan said he understood Mr. McNamara was considering an increase in the Bank's capital. In comparing the Articles of the Fund with those of the Bank, Mr. Jagannathan had noted that it was mandatory for the Fund to review its capital structure every five years, while this was not the case for the Bank. He recognized that it was convenient for the Bank to follow the Fund's practices in this respect but he wanted to point out that there was no automatic link between the two. Moreover, the Bank's Articles did say that when capital increases were effected, member countries should have the right to maintain their relative share holdings. Mr. Jagannathan referred to calculations he had made on various alternatives for Bank capital increases. While the Fund would carry through both a general and a special capital increase, the Bank should not necessarily follow the same practice. Instead it could achieve the same result by having a larger general increase--of about 35%. Mr. Jagannathan queried whether Mr. McNamara had at all intended to ask for a general increase. Mr. McNamara confirmed that he was seriously considering such a proposal. One advantage of parallel action between the Bank and the Fund was that it might more easily facilitate legislative approval in member countries.

Mr. Jagannathan pointed out that he realized that Japan and Germany had less voting power than what was warranted by their contributions to IDA. However, just as he saw no need for the Bank and the Fund to have similar voting structures, he would also be prepared to see differences in voting powers between IDA and the Bank. Mr. McNamara said that so far he had been mainly concerned with the totality of the problem. He had not yet concluded how this capital increase should be distributed and what its effect on voting power ought to be. He had realized that the proposal to increase the Bank's capital had to be reviewed within the same framework as contributions to IDA and he recognized that efforts to win approval for these measures might meet with problems. Part I countries had demanded that both the voting power issue as well as the ways in which IDA replenishments should take place be carefully examined before the Second Replenishment was fully disbursed.

Mr. McNamara asked Mr. Jagannathan whether he had any reaction from Part I countries on the Third Replenishment. Mr. Jagannathan said that he had nothing to report on this point. Mr. McNamara promised he would review Mr. Jagannathan's calculations very carefully.

Mr. Jagannathan then mentioned the problem of program lending to India. He said that the U.S. Government would not agree to a termination of Industrial Imports Credits to India. He thought it was important to look at the problem of program lending on a case by case basis. It was the specific economic appraisal which, in the final analysis, should be the determining factor. Mr. McNamara agreed and said he was aware of the strenuous efforts the Indian Government was making with project preparation. He did not see any major problem with the proposed Credit. However, he thought that the next irrigation project in India might meet with some difficulties in the Board, particularly because one-third of the project costs would already be disbursed and also because it had a high local currency component. Mr. Jagannathan said that compared to the irrigation credit to Ceylon which was approved last Tuesday the local currency financing in the Indian irrigation project could not be considered too high.

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January 27, 1970

Letter No. 36

Mr. Jean Baneth
International Bank for Reconstruction
and Development
P. O. Box 416
New Delhi, India

Dear Jean,

Many thanks for your note on the export credit system in India. Recently Bhagat was in Washington with K. B. Lall and naturally they came to talk to McNamara. McNamara had set 15 minutes aside for them and these 15 minutes were then taken up with inconsequential chattering about the present aid climate and India's bad luck.

Just when McNamara's next visitors were announced, K. B. Lall launched into the usual vague statement about the damage done to India's export efforts for lack of a decent export credit system and asked what the Bank could do about it. Fortunately, we had, on the basis of your note, briefed McNamara who said we did not think any special effort was needed at the present time but we would think about the needs for the future.

While I am always prepared to add to my sum of knowledge about things in India, I think it would be useful if you would explain to EAD that if India thinks this is a problem then India can at least make a case demonstrating what the problem is. I see no reason why we should always undertake to do India's research for her. K. B. Lall then went on to talk about some "Triffin Plan" which apparently he had discussed previously with McNamara on some occasion when I was not present. I could not understand what he was trying to say, but you may know something about it. It related to some kind of payment union proposal for Southeast Asia.

Best wishes,

Yours sincerely,

I. P. M. Cargill
Director
South Asia Department

CCP 2/2/70
2/2/70 2/5

Mr McNamara:

For your
5 p.m. mtg.
on Thursday
cc 1/21

INDIA

MR. BALI RAM BHAGAT

BIOGRAPHICAL SKETCH

Born at Patna (Bihar State) on October 7, 1922, Mr. Bhagat has been an active member of the Congress Party since 1939.

Mr. Bhagat left college to join the "Quit India" movement in 1942 and remained underground for over two years. With an active record as a Congress worker in subsequent years, Mr. Bhagat was elected member of Parliament in 1950. Since 1952 he has been continuously member of the Lok Sabha (Lower House of Parliament).

Since 1952 Mr. Bhagat has held the following official positions:

Parliamentary Secretary to Minister of Finance	1952-56
Deputy Minister of Finance	1956-63
Minister of Planning	1963-66
Minister in the Ministry of Finance	1963-67
Minister in the Ministry of Defence	Mar.-Nov. 1967
Minister in the Ministry of External Affairs	Nov. 1967-Feb. 1969
Minister of Foreign Trade	Feb. 1969 to present

Mr. Bhagat has headed the Indian delegation to various international conferences since 1951 including the Colombo Plan, ECAFE, UNCTAD, Asian Development Bank, etc. He attended the 1954 IBRD/IMF Annual Meeting in Washington and the 1958 Annual Meeting in New Delhi as Alternate Governor for India.

South Asia Department
January 20, 1970

NOTE ON INDIAN EXPORT SITUATION

1. Until fairly recently export promotion was not given serious attention by India. Accordingly export growth has been only about 2.7 percent a year over the last 20 years. India's share of world trade decreased steadily: whereas Indian exports represented more than one percent of world imports in 1958, ten years later their share came down to less than 0.8 percent.

2. The drought conditions which prevailed in India in 1966 and 1967 had a particularly bad effect on exports. However there was a dramatic recovery in 1968/69 when they increased by 13.5 percent compared with the previous year; compared with the previous exports peak of 1965/66, the increase was 7 percent. During the first 6 months of 1969/70, the growth of exports slackened and were only 1.7 percent higher than during the same period last year. This decline can be partly attributed to accidental factors like shortages of some agricultural raw materials (cotton, oilseeds), exceptional price declines of tea, labor troubles and also to a rather strong internal demand. However, for the year 1969/70 as a whole exports are expected to be 3.5 percent higher than the previous year; this estimate appears to have been endorsed by last month's IMF mission to India. Present indications are that for the coming three to four years underlying export growth may be of the same order: 3 to 4 percent a year.

3. In connection with the rise in India's exports of engineering goods, the Bank's Delhi Office has recently begun to examine the mechanism that now exists for providing medium and long term export credits and its adequacy relative to the export potential, including the possible need for external assistance in this field. The preliminary conclusions are as follows:

- (a) Present export credit facilities do not appear to be a constraint on the growth of India's exports of engineering goods;
- (b) So far, the amount of credit involved has been quite small. In 1968/69 only about ~~3~~ ⁴ percent of engineering exports were made on credit terms. The current annual rate of new credit sanctioned represents about 1 percent of total exports. If the current rate of sanction continues, the amount owed to India would after 10 years reach a peak equivalent to about 10 percent of exchange reserves. These amounts are so low that they can be quite comfortably financed out of India's foreign exchange reserves;
- (c) In future, the composition of Indian exports may shift towards more sophisticated capital goods. In that case, the amounts of credit needed may rise substantially. If this possibility materializes external assistance in the field of export credit financing may be needed. It would therefore be desirable to begin investigating how such assistance might be provided and examining whether administrative difficulties or economic problems are likely to stand in its way. The Bank's Delhi Office is continuing its examination of these subjects.

INDIA'S FOREIGN TRADE EXPORTS

(in million U.S. dollars)

	<u>1960/61</u>	<u>1965/66</u>	<u>1966/67</u>	<u>1967/68</u>	<u>1968/69</u>	<u>Annual Average Growth 1960/61 - 1968/69</u>
A. <u>Agricultural based Commodities</u>						
Jute manufactures	283	384	331	311	290	+ 0.3
Tea	259	241	211	240	208	- 2.0
Cotton fabrics	101	99	75	80	87	- 1.7
Oil cakes	30	73	57	60	66	+ 10.4
Leather and leather manufactures	52	60	83	71	97	+ 8.1
Other commodities	<u>198</u>	<u>261</u>	<u>236</u>	<u>246</u>	<u>280</u>	+ 4.4
Sub-total	923	1,118	993	1,008	1,034	+ 1.5
B. <u>Minerals</u>						
Iron ore	36	88	94	100	118	+ 16.0
Manganese ore	30	23	18	15	18	- 4.3
Mica	<u>21</u>	<u>24</u>	<u>19</u>	<u>20</u>	<u>18</u>	- 1.9
Sub-total	87	135	131	135	154	+ 7.4
C. <u>Other Manufactured Goods</u>						
Iron and steel	12	18	33	73	99	+ 30.0
Chemicals and allied products	7	17	14	16	22	+ 15.4
Engineering goods	<u>14</u>	<u>40</u>	<u>42</u>	<u>54</u>	<u>113</u>	+ 30.0
Sub-total	33	75	89	143	234	+ 27.5
D. <u>Others</u>	<u>343</u>	<u>364</u>	<u>325</u>	<u>308</u>	<u>387</u>	+ 1.6
TOTAL (A + B + C + D)	<u>1,386</u>	<u>1,692</u>	<u>1,538</u>	<u>1,594</u>	<u>1,809</u>	+ 4.1

April 16, 1970

A NOTE ON THE INDIAN CORRESPONDENTS

IN WASHINGTON, D.C. AND NEW YORK

T.V. Parasuram, Special Correspondent, Indian Express

The Indian Express is a daily published from Ahmedabad, New Delhi, Bombay, Madras, Madurai and Vijayawada. It claims a combined circulation of over 300,000. The paper belongs to Ramnath Goenka who has extensive business interests, particularly in banking and jute. Goenka also owns the Financial Express (Bombay), Dinamani (a Tamil daily from Madras), Lok Satta (a Marathi daily from Bombay), and Andhra Prabha (a Telugu Daily from Vijayawada).

PARASURAM was formerly a special correspondent of the Press Trust of India (the leading Indian wire service) in New Delhi and New York. He had spent a year at Harvard as an Associate Niemann Fellow. He joined the Indian Express six years ago as its U.S. correspondent based in Washington.

Krishan Bhatia, Special Correspondent, Hindustan Times
(Circulation: over 115,000)

The Hindustan Times belongs to the Birla Group. It is published from New Delhi and has an influential following in the nation's capital and parts of north India.

KRISHAN BHATIA came to Washington, D.C. two years ago after a brief spell as the Editor of the Hindustan Times. Prior to that he had served the Statesman as its Political Correspondent in New Delhi.

Easwar Sagar, Special Correspondent, The Hindu (Circulation: 150,000)

The Hindu, published from Madras, has a large following in south India. In 1968, the American Newspaper Publishers' Association gave the Hindu the World Press Achievement Award. Mr. McNamara has met the Editor and owner, Mr. G. Kasturi, in Washington in May 1968.

EASWAR SAGAR came to the United States 10 years ago after serving for three years as the Hindu's Calcutta correspondent.

M. V. Kamath, Special Correspondent, The Times of India (Circulation: 200,000)

The Times of India, published from Ahmedabad, Bombay and Delhi, has a big following in western India. It belongs to the Jain Group of publications, which also owns the Economic Times (Bombay), Maharashtra Times (a Marathi daily from Bombay), Navbharat Times (a Hindi daily from Delhi and Bombay) and the Illustrated Weekly of India. Shanti Prasad Jain, the owner of the group, has extensive business interests.

President has seen,

KAMATH came to Washington as the Times of India correspondent a year ago. Previously he has held a succession of important positions: Assistant Editor of the Free Press Journal, UN correspondent for the Press Trust of India in New York, and European correspondent for the Times of India.

C. Raghavan, Special Correspondent, Press Trust of India

The Press Trust of India (PTI) is the leading Indian wire service providing Indian and foreign news to more than 200 newspapers in the country and the All India Radio. It distributes in India the Reuters, AFP and UP services.

RAGHAVAN came to New York five years ago after serving for several years as the chief Parliamentary Correspondent of the PTI in New Delhi. He was an active trade unionist and served for a number of years as the Secretary of the Federation of Working Journalists of India.

All these journalists are very friendly to the Bank. Sagar and Parasuram are particularly well informed about the Bank. Politics is the strong point of Krishan Bhatia. Raghavan follows Bank activities closely. He often tends to take a strong pro-UN position vis-à-vis development aid questions. Kamath is feeling his way through.

S. Sankaran

Q & A for Indian journalists.

B.D.C

4/22
Pg
return

5:30
Fri (4/24)
morning
K. S. Ch

1. How do you assess the outlook for development assistance, especially since the Pearson Report was published?
2. What are the prospects for aid to India in general, and for Bank/IDA lending in particular?
3. Why is India's share of IDA lending being reduced?
4. What are the prospects for the Third Replenishment of IDA?
5. Are you satisfied with India's recent economic progress?
6. Does the Bank intend to move increasingly towards project as distinct from program lending in India's case?
7. What are your views on the question of domestic price preferences?
8. Will the Bank be ready to assist India and Pakistan to reach a settlement on the question of sharing the eastern rivers?
9. Will the Bank assist fertilizer projects in the public sector?
10. Is the Bank considering the question of assisting India by refinancing her export credits in regard to exports of manufactured goods in order to enable her to compete on equal terms with developed countries?
11. Will the Bank provide financial assistance to India in solving urban problems, particularly in regard to Calcutta?

12. Are you satisfied with India's efforts to control excessive population growth? Is the Bank going to assist India in this field?

13. Would you care to comment on criticisms about the interventionist policy of the Bank?

14. What are your plans for evolving a new development strategy in the Bank's worldwide activities?

IBRD AND IDA LENDING IN INDIA IN RECENT YEARS

<u>Fiscal Years</u>	<u>Total In \$ Millions</u>	<u>Indian Share In \$ Millions</u>	<u>Indian Share %</u>
<u>IBRD</u>			
1963/64	809.85	-	-
1964/65	1,023.30	134.00	13.0
1965/66	839.20	-	-
1966/67	876.75	30.00	3.4
1967/68	846.95	25.00	2.9
1968/69	1,399.25	40.50	2.9
1969/70 (up to March 31, 1970)	870.35	-	-
<u>IDA</u>			
1963/64	283.24	90.00	31.7
1964/65	309.09	95.00	30.7
1965/66	284.10	191.00	66.8
1966/67	353.54	215.00	60.0
1967/68	106.55	-	-
1968/69	385.00	152.50	39.0
* 1969/70 (up to March 31, 1970)	219.45	90.00	41.0

* ~~IB~~ Latest \$75 million IDA credit for industrial imports is NOT included.

1. How do you assess the outlook for development assistance, especially since the Pearson Report was published?

The outlook is improving. The Pearson Report has helped. The decline in aid may now be reversing itself. A number of developed countries -- U.K., Japan, Germany, Norway and New Zealand -- have indicated their intention to increase development assistance since the Pearson Report was published. Sweden and Holland have also indicated a similar intention.

The big exception is the U.S.A. But I am encouraged by President Nixon's firm commitment to the principle of development aid, and by the Peterson Report. In particular, the Peterson Task Force has specifically endorsed the Pearson recommendation that additional resources to IDA should be provided at the rate of \$1,000 million a year by 1972, rising to \$1,500 million by 1975.

Development is a task in which both developed and developing countries have a joint responsibility.

Developed countries need to realize that "development does work", e.g.,

- First Development Decade target of 5% annual economic growth has been achieved, on average, although performance of individual developing countries has varied widely.
- 85% of this development has been financed by developing countries from their own resources, with only 15% coming from external sources.
- Developing countries can efficiently and productively use far larger external resources than they have been getting.

-- Developed countries have the ability to provide these extra resources. GNP increase. Armaments expenditure. Consumer gadgetry.

2. What are the prospects for aid to India in general, and for Bank/IDA lending in particular?

Total gross aid commitments to India (including food aid) have been as follows:

	<u>\$ million</u>
1966-67	1,494
1967-68	1,560
1968-69	1,217 (estimate)
1969-70	1,140 (forecast)

The aid has been less than India expected. It is also less than she could effectively use.

But there are two points to consider. First, India is one of a number of countries which have been affected by the deterioration in the general climate for foreign aid. Secondly, Bank/IDA lending to India has improved substantially after the sharp drop in 1967-68 -- a drop that was due mainly to IDA Second Replenishment delays.

We expect that in the five years to 1973 we will lend twice as much globally as we lent in the previous five years. We look forward to a substantial increase in India's case also. (Mr. McNamara: Do you want to say this?)

We intend to do all we can to promote the flow of aid to India. As a large country, with a large population, she has special importance. Her needs are great, and her capacity for using the aid effectively is also great.

"This is the country in which the Bank is on trial as a development agency. If India cannot be developed, by her own efforts mainly,

but with such external assistance as is necessary, then the world development plans cannot succeed."

In India there is a certain determination to be less dependent on external aid. "I welcome this because it is also our objective at the Bank to help create a self-sustained growth. But, for the time being, India's needs remain very large. We, in the World Bank, intend to play our part in seeing that these needs are met fully, as you play your part in seeing that domestic resources are fully mobilized."

Although the flow of resources to India in absolute terms appears large, per capita assistance to India has been among the lowest in the world.

3. Why is India's share of IDA lending being reduced?

No specific proportion of IDA resources has ever been "allocated" to India. IDA funds have been committed as suitable projects have come up, from India as from any other country. In the process, more has been given to India in some years and less in others; nobody can say that any specific proportion was India's pre-allocated "share".

It is not India alone that gets too little money from IDA. Everybody else gets too little also, because the total sum available to IDA is too small.

Until Fiscal 1967, \$1,220 million, or 72% of total IDA lending, went to India and Pakistan. Within this total, \$889 million, or 53%, went to India, making her by far the biggest single borrower from IDA.

India has got so much IDA money because she is a large country; has a large population; and her needs are large. She has very low per capita income; her debt servicing problems have been serious; and she has been able to bring forward a large number of proposals suitable for Bank/IDA financing.

These factors still apply. But how much IDA money India gets depends on how much IDA itself gets, through the Third Replenishment. If our hopes concerning the next IDA Replenishment are realized, we expect that the volume of IDA lending to India will increase very substantially. (??) During Fiscal 1970, if all goes well, India may be getting over \$230 million from IDA -- more than in any previous year. (??)

The number of countries capable of preparing projects suitable for IDA lending is increasing. Take, for example, Indonesia which had got no money from either the Bank or IDA until August 1968, but has come up with five projects that have qualified for \$66 million of IDA lending since then.

There are a number of other countries -- in Asia, in Africa, in Latin America -- which have begun to qualify for IDA lending. In Africa particularly IDA lending in earlier years (like Bank lending) was small because most of our African members were relatively new countries and relatively new members of the World Bank Group. Many had primitive economies which they have begun to develop only fairly recently. But they have a vast development potential, and are now actively engaged in preparing and implementing development programs.

As an international organization with 112 members, it is our responsibility to look into their needs as carefully as we do into India's.

4. What are the prospects for the Third Replenishment of IDA?

Ultimately it is for the governments of the developed Part I countries and their legislatures to decide the level of their contributions. We have started negotiations with the richer member countries of IDA on the Third Replenishment. IDA resources, including the Second Replenishment of about \$1,200 million, will be committed by June 30, 1971. We are very keen to ensure continuity of operations, and at a higher level. In this context, we are encouraged by the favorable recommendations of the Pearson and Peterson reports. IDA now has the capacity to handle a much greater volume of business.

If developing countries like India expressed greater appreciation of work done by agencies like IDA, that would help the Third Replenishment.

IDA is important because the debt servicing problems of many developing countries are becoming serious. For example, in the 10 years for which we have relatively accurate debt statistics, 1957 to 1967, the external debt of the developing nations has quadrupled. The cost of servicing this debt has been rising substantially. It has been increasing by about 17% a year, while the export earnings of the developing nations have been increasing only by about 5% a year.

Industrialized and developing countries have both contributed to debt problem. Industrialized countries have done this by providing finance on onerous terms, especially in suppliers' credits. Developing countries have contributed to problem by improvident borrowing and misuse of aid.

But problem has arisen even in some countries which have made good use of loans. For example, India and Pakistan. Their needs are very large. So their debt burden has become very large, even though the money has been used well.

Lesson for future: it would be wrong to reduce aid, because that would reduce growth rates. So terms of lending must be adjusted according to each country's circumstances. That is why concessionary finance, such as IDA's, is important.

Between 1961-62 and 1968-69, India's annual debt service payments increased from \$191 million to \$518 million. Her export earnings rose from \$1,387 million to \$1,813 million. Her debt service ratio thus increased from 13.8% to 28.6%.

As Chairman of the India Consortium and with the cooperation of the Indian Government the Bank explored the Indian debt question and arranged for a partial rescheduling of debts to members of the Consortium affecting about \$100 million during Indian fiscal year ended March 31, 1969. Members of the Consortium also agreed to consider favorably a similar amount of debt relief for the following two years. Any new initiative for a rescheduling of the debt will have to come from India.

5. Are you satisfied with India's recent economic progress?

Given the low per capita income and standard of living of the people of India, no one can be content with the progress that has so far been made. But we are satisfied with what the Government of India is doing with the resources available to it. The fact of the matter is that resources have been far too inadequate in relation to the needs.

The one thing that has impressed me most is the successful agricultural revolution now taking place -- with some stops and starts -- all over India. The new seeds are only one part of it; better irrigation, better fertilizers and more of both are needed if the soil of India is to feed its children adequately. This is also a field in which the Bank Group will get increasingly involved in India. We have recently made a loan for a project for the production of high yielding seeds. We are now discussing a number of agricultural projects in Punjab, Andhra, Tamil Nadu and Gujarat.

To reach her goal of self-sustaining growth, India will have to tackle the problems of the dominant sector of her economy -- agriculture. I am not emphasizing this sector merely because it is manifestly productive. Whatever be the glamour of mammoth industrial projects, the fact remains that in the developing world agriculture is the indispensable foundation of a healthy economy.

In the field of industry, the Bank intends to do more to help developing countries in the whole complicated process of rationalizing their industrial sectors. Our record in India is good. The Bank, IDA and IFC have so far committed about \$1,012 million for industrial

5/..... development in India. This is 44% of the Group's commitment in the country. We are financing the expansion of productive capacity in a large number of manufacturing enterprises through IDA credits totaling \$605 million. The Bank has provided finance for the ICICI, the Tata and Indian Iron companies, private coal mining industry. IFC assistance includes the Kanpur and the Zuari fertilizer projects. We plan to do more in India and elsewhere.

What is required at present are renewed efforts both to rationalize the existing industrial structure, and to stimulate additional and genuinely competitive growth.

6. Does the Bank intend to move increasingly towards project as distinct from program lending in India's case?

We believe that we can make an effective contribution to India's development through project lending, although only a few days ago we extended an IDA credit of \$75 million for industrial imports.

There is a widespread view that the Bank does its work best through project loans. On the other hand, as in India's case, program lending has been extremely useful, along with non-project aid from other countries.

Whether any further program loans will be made to India in the future will depend, inter alia, on the nature of IDA's Third Replenishment.

7. What are your views on the question of domestic price preferences?

The question of the price preference to be allowed to domestic suppliers under Bank-financed contracts is a difficult and complex one. The maximum preference allowed at present is 15%. The question of allowing a higher level of preference in certain cases has been considered.

On the one hand, it stands to reason that borrowers should be helped to encourage domestic industries and domestic sources of supply for goods and services. On the other, we have to ensure that the industrial development which does take place helps to create economically viable industries -- not those which can survive only in a situation of high tariffs or other preferential treatment. No clear-cut conclusion has emerged so far on this problem.

The question of domestic price preferences is sometimes exaggerated. Most Bank lending is related to foreign exchange costs; the domestic price preference issue arises only sometimes, and in relation to a relatively small proportion of such costs. It does not, of course, arise in relation to local currency costs, which are often a very substantial part of total project costs.

Furthermore, we need to remember that, in India as in many other countries, the Bank has provided assistance to domestic suppliers, both directly and through development finance companies. The Bank has, for instance, helped many Indian industries to make equipment for railways, telecommunications and other sectors.

Our lending for industrial imports has directly benefited a wide range of Indian industries. The criticism that the Bank does not want to help domestic suppliers or domestic industries is thus incorrect.

8. Will the Bank be ready to assist India and Pakistan to reach a settlement on the question of sharing the eastern rivers?

We do not intend to intervene in the dispute between India and Pakistan. But, if asked by both parties, we will consider how we might be able to help. This was the position in the case of the settlement of the dispute over the sharing of the Indus waters. Our position is known to both India and Pakistan. Of course, we would be very happy if both India and Pakistan themselves could agree and develop the tremendous potential of the eastern rivers.

9. Will the Bank assist fertilizer projects in the public sector?

Yes. Our primary interest is that India should continue to tackle effectively the total problem of building adequate fertilizer capacity by complementary steps in both the public and private sectors. The managerial resources should be available to take care of the additional public sector capacity. The question of ownership is of secondary importance. At the moment we are very keen to assist the expansion of fertilizer capacity in India in the public or private sector. We are considering the question of financing the expansion of the Nangal fertilizer plant.

I think it is high time we got out of this debate over ownership and did something concrete about this urgent problem.

10: Is the Bank considering the question of assisting India by refinancing her export credits in regard to exports of manufactured goods in order to enable her to compete on equal terms with developed countries?

The issue was raised at our last Annual Meeting by the Governor for India. He advocated the desirability of refinancing the export credits of those developing countries which export capital goods. The issue was addressed to the Fund and the regional development banks, like the Asian Development Bank, as well. The Bank is considering this question.

11. Will the Bank provide financial assistance to India in solving urban problems, particularly in regard to Calcutta?

In principle, the Bank is ready to assist India in this regard.

I am deeply concerned about this problem. As you know, during my last visit to India I spent considerable time in Calcutta and Bombay discussing this problem. I have followed this up by sending a mission to India to specifically study the subject in detail. The mission has recently returned after visits to Calcutta and other cities. I am awaiting its report indicating the possibilities for Bank assistance in this important field.

12. Are you satisfied with India's efforts to control excessive population growth? Is the Bank going to assist India in this field?

I am deeply impressed by the efforts made so far, particularly in the last five years, and by the determination of the Indian Government to tackle this problem. In no other large country that I know is there such unanimity and singleness of purpose about promoting population planning.

Between 1964 and 1969 the acceptors of contraceptive measures increased by about 10 times to reach 10.5 million. It is a commendable feat. However, it also underlines the enormity of the job that still remains to be done. There are still about 70 million couples outside the purview of the family planning program.

In November last, the India Consortium held a special meeting to review the progress of the Indian family planning program and to consider the question of external assistance to this program. The Indian Fourth Plan has rightly assigned top priority to the family planning program. I think India can absorb substantial amounts of additional resources. This is the view of the members of the Consortium.

The Bank is ready to help India. We are in the process of identifying a project suitable for IDA financing. I am sure many members of the India Consortium are also ready to provide assistance.

13. Would you care to comment on criticisms about the interventionist policy of the Bank?

The Bank wants to help India to develop "in its own way". We believe that the primary responsibility for development rests with the developing countries themselves. On average, they themselves provide 85% of the resources required for development, and only 15% comes from abroad. The basic framework of national objectives must be shaped by the developing country itself. In addition, the primary political decisions are its own.

Decision-makers in developing countries need a clear view of development goals, and ^aworkable set of options designed to meet those goals. They need practical, politically-feasible programs that can command and sustain legislative and popular support.

Adopting sound economic policies involves taking difficult decisions. Controversy is inevitable, especially in so active a democracy as India's.

We in the Bank have to be ready to discuss these policies and decisions as disinterested professionals. We believe that it is our duty to point up the options open to our borrowers, and also the consequences of each of those options. The final decisions must rest with the borrowing countries themselves. By expressing our views, we cannot expect to escape criticism completely. But our interest and the borrowers' interest is basically the same: to ensure the best possible use of limited resources. We seek a partnership in the truest sense of the word, without in any way

infringing the sovereign right of the borrowing nation to develop in its own way.

There have been failings in the difficult relationship between aid-givers and aid recipients in the past. There will be some failings and friction in the future too. But our relationship with India has on the whole been a very happy and productive one.

14. What are your plans for evolving a new development strategy in the Bank's worldwide activities?

We have already taken some new initiatives. Stronger emphasis on population policy, educational reform and agricultural expansion.

But a piecemeal "project-here, project-there" approach will not do. As India's own Five Year Plans have pointed out, we need a comprehensive development strategy; an overall plan into which particular policies and individual projects can be fitted as logical, integral parts. India's experience is going to be of great help to us in framing such a strategy.

Strategy must provide for an attack on the interrelated problems of unemployment, urbanization and industrialization.

Expanded program of Country Economic Reports. Emphasis on preinvestment studies. These intended to help better planning in developing countries; better allocation of preinvestment assistance; and better project preparation. Will also be made available to bilateral and international organizations, so that they can assess economic priorities in individual countries more effectively.

Comprehensive economic missions will include UNDP representative. Along with UNDP, experts from other UN Specialized Agencies -- FAO, WHO, Unesco, etc. -- may participate in such missions as required. Several such missions will go to other countries in 1970 and later years as part of continuing program.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 2, 1970

FROM: Gregory B. Votaw *GV*SUBJECT: INDIA - Your meeting with Dr. I. G. Patel,
Secretary to the Government of India,
Department of Economic Affairs,
Ministry of Finance

1. You are scheduled to meet Dr. I. G. Patel, who is already well known to you, at 5:30 p.m. June 2. I am assuming that you would also like me to be present at that meeting. Jagannathan will probably also attend (although since he leaves Washington tomorrow and there is an embassy reception for him at 6:30 p.m., Shroff may take his place). Patel is in Washington primarily to lead a three-day seminar at the Fund.

2. From their conversations in Paris Cargill believes Patel intends to raise three topics with you:

(a) Eastern Waters: Patel will report that the political mood in Delhi strongly favors a settlement with Pakistan over the use of the Ganges-Bramaputra waters. However, India finds Pakistani negotiators ill-prepared to talk knowledgeably about the problem or Pakistan's needs. The GOI hopes IBRD's work in East Pakistan will soon provide Pakistan engineers and politicians with the information they need to conduct meaningful negotiations.

I suggest you respond by welcoming the favorable climate of opinion in India (reference George Verghese article in the Hindustan Times, March 29, 1970) and urge that Patel meet with Sadove later in the week to learn more about the work program of the E. Pakistan group of the Special Projects Department. I have already informed Sadove that such a meeting may be requested by Patel (whom he has known socially for some years).

(b) Calcutta Urban Development Plan: West Bengal and Central Government authorities have recently agreed on a Rs. 150 crore allocation (up from Rs. 50 crores) for meeting the Calcutta "crisis". You are widely quoted as saying that the Bank Group wants to play a part in financing improvements in Calcutta. As I understand it, Mrs. Gandhi has not yet decided whether foreign support would really be useful in this already very tense and tangled situation; however, she may ask IBRD to take the lead in mobilizing and coordinating external assistance from the United States, the United Kingdom, the Scandanavian countries et al. If there is to be foreign assistance, GOI wants it from as broad a group as possible.

President has seen

Patel's "feeler", if he broaches this subject, will be tentative; no solid action is expected before 1973 or 1974 (for reasons which are not clear to me).

I suggest that your response be concerned but cautious. IBRD has made several efforts to help Calcutta. (A special effort there was endorsed strongly by the mammoth economic report of 1960!) Clearly, we would participate in any promising endeavor. We will keep in touch. Meanwhile, we are working more actively with planners in the Bombay Area and would welcome other "urban projects" in India if GOI wishes to put them to us.

(c) Bank/IDA Financing for Ships and/or Jumbo Jets: India has embarked on a sizeable expansion of her merchant fleet and her two airlines. Cargill has already told Patel that airplane financing is almost impossible for the Bank Group because of international bidding problems and the availability of money from commercial sources. Despite alleged world surplus shipping capacity, we have financed ships in a modest way through ICICI, but India has made most of its recent purchases with supplier credits (which the Consortium considers ill-advised as adding to an already serious debt-servicing problem).

Although there appears to be good economic justification for both investments, I would recommend that you leave Patel with little hope of substantial Bank Group financing for ships or planes. Meanwhile, over the next few months, we will explore the need for ships a little more carefully.

3. There are several other subjects which may come up:

(a) Non-project Lending: Patel is unhappy that no provision is made in the FY 71 program for another industrial imports credit. As you know, the proposed IDA program includes about \$70 million for irrigation, \$50 million for agricultural credit, \$10 million for other agricultural projects (crop spraying and grain storage), \$40 million for power transmission, \$40 million for fertilizer manufacturing (public sector), \$15 million for Bombay Water Supply and \$10 million for family planning. These are all good projects and more in line with the consensus among EDs (and staff) than industrial imports. There simply is no room for industrial imports in FY 71.

I suggest you reaffirm to Patel your personal support for the principle of non-project lending, and leave the door ever so slightly ajar for reconsideration of the need for credits a year or so from now (i.e. after Pearson recommendations are discussed, after replenishment is authorized, and possibly after two or three countries other than India have been considered by Bank/IDA for "program aid").

Patel will argue that, if IDA does not continue non-project lending, then Canada, Sweden and some other bilateral aid-givers will also stop. It is a fact that there is a strong imitation effect which non-project supporters in Ottawa, Stockholm and elsewhere have also pointed out to us. The Bank will simply have to keep urging that, for the next year or two at least, others do as we say, not as we do, unless of course they are willing to opt for local expenditure financing.

You might take the occasion to urge Patel to ensure that, if we ever do consider another industrial imports project, GOI cooperate far more than they have in the past with our preparation of a respectable economic case for such lending.

(b) Fertilizer Manufacturing: Preparation on the Indian side remains very slow as far as the public sector projects are concerned, although we may move forward when Fuchs and Tikhon visit Delhi in the next few weeks. We also hope Tata's project is really being revived and will be presented for IBRD financing.

(c) Debt Relief: The Consortium took no decision regarding additional relief after this fiscal year (which ends March 31, 1971). A working party will study the problem in the next several months. India herself is lukewarm. Japan is opposed. It would be useful to tell Patel that IBRD is unlikely to agree to further rescheduling of its obligations, even if there is general agreement regarding re-financing of payments due to bilateral creditors.


(d) Procurement and Domestic Preferences: Patel knows our problem and we know his. Political constraints on both sides. He probably will not raise this with you, but I do hope we soon reach a reasonable understanding. The power transmission scheme, as you know, unlike most other projects, depends entirely on a reasonable procurement formula in which India accepts the results of international bidding even if IDA will not accept a margin of preference of more than 15 percent (which, as you know, is below the basic Indian import duty for this type of equipment).

(e) Consortium: You might ask Patel, who uniquely among present players, has been in the Consortium meetings since their inception in 1958. You will recall his rather cynical paper, delivered to the Williamsburg conference.

(f) Pearson Commission Recommendations: I. G. may want to know how you propose to proceed with discussions on the recommendations which affect the Bank Group.

OFFICE MEMORANDUM

TO: Files

FROM: Gregory B. Votaw 

SUBJECT: INDIA - Visit of Dr. I. G. Patel (Secretary Ministry of Finance) and His Excellency L. K. Jha (Ambassador to the United States) with Mr. McNamara, June 2, 1970

DATE: Recorded June 14, 1970
Typed September 16, 1970

1. Consortium: Patel reported that he was very satisfied with the way Consortium discussions had gone in Paris the previous week. He felt the constructive mood of the meeting was a direct result of the excellent economic report which the Bank staff had prepared for distribution in April.
2. There had been an interesting discussion of the Dutch proposal to untie development aid, and the Government of India hoped that DAC discussions in Tokyo September 15 would establish agreement on untying. McNamara explained that the Bank Group was doing everything it could to encourage the untying of development aid and noted that he had asked Demuth to take responsibility for the Bank's contribution to the DAC effort. Patel said that universal untying would be very helpful to India. However, if this objective could not be obtained immediately, a form of untying which would make aid available to finance purchases from less developed countries would be more beneficial to India (and to international development generally) than untying among donors or any other "partial" formula. Partial untying should not be ruled out, however, since even a limited first step would create a satisfactory precedent for more complete untying at a later stage.
3. The debt relief exercise initiated in 1967 would come to the end of its initial three-year period at the end of the current Indian fiscal year (March 31, 1971). Patel said that as far as he could see this was the end of debt relief for India. There was no agreement among donors regarding further debt relief, and agreement seemed quite unlikely. Certainly the GOI was not now prepared to press aggressively for additional debt relief, since the original three-year exercise seemed to have cost India more in terms of good will than was warranted in terms of its major benefit, which was to make aid more usable.
4. IDA Replenishment: Patel congratulated McNamara on the Bank's apparent success in arranging replenishment at a level of \$800 million per year. Only a few months back no one would have thought that so high a level of replenishment could be agreed and when Patel had spoken to Kashiwagi in February the Japanese seemed to have so many conditions that any substantial replenishment seemed in doubt.

5. Patel stated that once there is a world-wide IDA program of \$800 million or more per year it would be possible to forget about a minimum percentage share for India. India was hopeful of getting a larger absolute amount - say \$300 million annually - but had long looked forward to the time when IDA money would become plentiful enough, so that its distribution would not result in divisiveness and invidious comparisons among the LDC's. India welcomed IDA's increased activity in areas such as Africa and was pleased to learn that 14 countries would receive their first IDA assistance during the current fiscal year.

6. Cauvery Irrigation Project: Patel expressed his regret that India had been forced to request postponement of negotiations on the proposed Cauvery project. This was a tactical move which he expected to be temporary. Up stream riparian states, particularly Mysore, were reluctant to see an international financing agreement concluded for a project in Tamil Nadu without having some understanding that such an agreement would not prejudice their rights in the use of Cauvery waters, which were subjected to renegotiation in 1974 when the existing inter-state treaty terminated. Patel was confident that the concerned Chief Ministers would reach a satisfactory understanding when they met to discuss the subject later in June. As yet, there could be no commitment on the timing of negotiations with IDA, but Patel hoped to be able to cable from Delhi by the end of June proposing a new date for negotiations in early July.

7. Other Projects: The delay over Cauvery illustrates a weakness of the lending program for India which the Bank and the Government must work together to overcome. A large enough pipeline of projects has to be developed so that an unforeseen delay in one project will not result in reducing the overall annual amount of lending to India. For example, achievement of the \$236 million target IDA program in India for FY 70 should not have been depended on one project, since any project may develop last minute difficulties; it was unfortunate that no other project was sufficiently advanced to substitute for Cauvery when last minute difficulties appeared. In future years IDA would prefer to be in the position of having to hold projects for presentation in July/August rather than to fall short of its annual target program. To reach this position, McNamara emphasized, the Government would have to work out solutions to a number of "technical problems" which had caused so much delay and uncertainty during the last year. Such problems include procurement formula providing reasonable preference for Indian suppliers and questions of "additionality" where Indian Plans do not provide large enough financial allocations to complete projects in a way which Bank appraisal missions considered optimal. McNamara asked that Patel endeavor to obtain clearances from his Government within 90 days - say, by early September - so that India and the Bank could agree in general terms on policies to be applied to projects over the next few years. With such an agreement on recurring issues we could start the next fiscal year on

the assumption that, if India's economic performance was satisfactory, an IDA lending program of \$236 million could be completed without untoward delay over well-known issues, such as procurement. It was emphasized that India should maintain an active dialogue with the Bank staff until these general issues were resolved. Propose solutions quickly, so that if any given proposal was unacceptable, work could begin promptly on an alternative.

8. On the procurement question Patel noted several possibilities. India could, for instance, accept the 15 percent level of preference, which ED's seemed to prefer, on the understanding that the Bank would allow Government to reserve for local suppliers any item it wished to protect from foreign competition. Another possibility, which was being considered in Delhi, was that IDA finance the import component of locally procured equipment where the local supplier required between 15 percent and 27.5 percent preference; this would be in addition to IDA financing which was already agreed, for any local procurement within the 15 percent preference and foreign procurement where the local supplier required more than 27.5 percent preference. Under all formulae the Government would have to be allowed to have some area of exclusion (or "reserved procurement") but would try to keep such exclusions to a minimum. Obviously, the higher the preference, the smaller the area of reserved procurement need be. McNamara observed that, because of some EDs' objections to a level of preference greater than 15 percent, he recognized ~~that~~ IDA would have to accept some element of reserved procurement, although we would prefer full international competitive bidding. It was also understood that India and IDA would probably have to develop more projects with smaller loans than would be the case if no procurement were reserved. It was agreed that Knapp and Patel would discuss the procurement question in detail with Baum the following day.

9. Various projects were mentioned briefly:

- a. Family Planning: Patel said the GOI was happy to establish an active dialogue with the Bank on this subject. McNamara said the Bank was anxious to gain experience from field work in India, a country which had a large family planning program going back over a decade or two.
- b. Power Transmission: Proceeding with this project, which India and IDA were both anxious to do, depended almost entirely on reaching some agreement at the Cabinet level in India on the local preference question.

- c. Highways: Patel asked if international tendering was essential. He understood that the Bank had always insisted on competitive contracting. He wanted to expose Indian contractors to international know-how through technical assistance. But international bidding would not be accepted in India unless politicians and contractors were convinced that it would result in building up Indian capability in the road construction field. It was agreed that Patel should meet with Knox the following day to discuss the proposed highway project and to try to find a way of developing a project for IDA financing which would enable the Indian contractors to learn international contracting techniques and to apply international construction standards. It was also noted that engineering supervision by expatriate consulting engineers would probably be an essential element in any IDA financed highway project.

10. Calcutta: Patel reported that India's financial allocation for improving Calcutta had been increased from Rs. 42 Crores to Rs. 156 Crores. These figures represented the cost of schemes to be undertaken immediately, which were obviously only the first small step toward revitalization of the Calcutta metropolitan area. Mrs. Gandhi hoped for broad international support for this endeavor, including not just the Bank or Consortium members but hopefully all major aid givers, including the U.S.S.R. Such a consortium of international aid-givers should be organized as soon as possible, so that outsiders could begin to get a feel for problems of Calcutta and select projects to finance. Meanwhile, the GOI would start spending its Rs. 156 Crores, since urgent schemes could not wait for outside assistance. McNamara said he was anxious for the Bank to get into urban projects but that we might find our efforts more fruitful in some city other than Calcutta (e.g. Bombay). The Bank would cooperate with any international effort in Calcutta and for many reasons welcomed the suggestion that this include technical and financial contributions from sources such as the U.S.S.R. The Bank would certainly have no objection to India organizing such a group, but the Government should realize that, if it convened a special "consortium" of aid givers for Calcutta, it could not expect other agencies, such as the Bank, to do the work which the chairmen of successful aid consortia were obliged to do. McNamara also asked if the West Bengal Government was organized to assist the Calcutta program, even on the limited scale proposed. Patel said that West Bengal was once again under President's Rule and that this was one reason why the Prime Minister felt that this was a particularly good time to begin to organize a major effort to deal with the Calcutta problem. Of course, even with President's Rule there were many problems, including dozens of municipal jurisdictions and other interagency conflicts. McNamara reported his interest in doing something for Calcutta despite the fact that it was perhaps the most difficult metropolitan problem in the world; in fact, he felt IBRD should help precisely because the Calcutta problem is so difficult. Since the GOI proposed to take the lead in organizing international assistance, the Bank would await its formal proposal before taking further action.

11. Farrakka: Patel explained that the Farrakka Barrage was vital to Calcutta. India understood that the operation of the Barrage would affect Pakistan even in vital water and agricultural developments which the Bank Group might be asked to finance. India knew its own basic needs which were primarily to flush the Hooghly in order to preserve Calcutta. No one could change these needs, and India could not give East Pakistan something which Calcutta needed. Nevertheless, India is most anxious to help Pakistan in any other way which the Bank might suggest. (Someone asked if this meant India could help finance some development works in East Pakistan, but the Indians responded immediately in the negative.) India fears that the discussions with Pakistan are getting into a rut, even though India wants to find a solution that helps both itself and Pakistan. India also feels that it does not know enough about what the Bank is doing in East Pakistan or what the Bank's ultimate objectives there are. Patel requested that the Bank do whatever it can to take Pakistan's mind off Farrakka and to propose constructive alternatives to Pakistan's attempts to grab water which is needed to save Calcutta. Indian technicians believe that much agricultural development can be done in East Pakistan - and done perhaps more economically - without using the water needed by India to flush the Hooghly for Calcutta.

12. Since bilateral negotiations seemed to have reached an impasse, much thought has been given to the usefulness of bringing in a third party. McNamara noted that 18 months earlier Pakistan would have agreed to multilateral examination of the problem, but this was probably no longer true. The pressure for relief for East Pakistan had grown in the interim. Certainly, the Bank could not do anything in this area without a firm request from both governments, indicating that both sides are willing to try to meet each other's vital needs. Through the Special Projects Department, the Bank was exploring various ways of helping East Pakistan, including many which would use resources other than the disputed waters of the Ganges. Jha urged that if any water supply arrangement from India would be helpful to the East Pakistan program, the Bank should make this proposal known to India. The Bank staff should not assume that India would fail to respond positively. In fact, India is prepared to cooperate most generously, but it cannot sacrifice or jeopardize the vital interests of Calcutta nor can it afford to finance works outside India. However, if the Bank's studies require information or any other cooperation from India, the staff should not hesitate to make these needs known in Delhi.

13. Ships: Patel requested that the Bank consider financing bulk oil and ore carriers. To operate the Haldia refinery alone India could save \$9 million a year if it had two ships of its own, which would cost only \$35 million. Suppliers' credits were no longer available for ships, at least not in adequate amounts, and would in any case be inappropriate,

given India's present debt-servicing problem. It was agreed that the Bank would look into the possibility of financing ships and noted that this is already done indirectly through ICICI. Patel indicated that assistance was needed for private shipping firms as well as the Government Shipping Corporation (which had a 20 year record of successful operations). Patel promised to send a note on India's shipping requirements. McNamara agreed that as soon as the Bank received Patel's note, it would be given earnest consideration despite the fact that ship financing was not a field in which the Bank had found it useful to be very active in the past.

OFFICE MEMORANDUM

TO: Files

DATE: December 31, 1970
(Typed January 13, 1971)

FROM: Gregory B. Votaw *GV*

SUBJECT: INDIA - Courtesy Call of Mr. V. P. Naik, Chief Minister of Maharashtra State, on Mr. McNamara, October 5, 1970

1. Mr. Naik and his Development Commissioner, Mr. Abhyankar, spent about ten minutes with Mr. McNamara. Dr. Sen was also present.
2. Mr. Naik described recent agricultural development in Maharashtra. He pointed out that his state has relatively little irrigation potential and emphasized the special success of his farmers with new varieties of minor foodgrains (e.g. bajra and jowar). Mr. McNamara asked what the state government had done to increase tax revenues from agriculture. The Chief Minister explained that a good deal of revenue was being collected through special levies such as the education cess; in India there had not been much success with the direct taxation of agriculturists because direct taxes were difficult to administer, but in Maharashtra he had been successful in collecting taxes tied to improved social services such as education. The state needed substantial additional investment resources to explore groundwater potential and to develop its limited surface irrigation opportunities.
3. As he was leaving Mr. Naik commended Mr. McNamara for directing the attention of the world, and the resources of the World Bank Group, toward the problems of urbanization. The Chief Minister mentioned his state's pioneering efforts to attract industry to areas outside Bombay, which was already congested, and he expressed the hope that Bank Group financing would be made available to Maharashtra to assist in the implementation of its urban development plans.
4. Following the meeting with Mr. McNamara, Mr. Naik met with a number of staff members primarily to discuss the status of the proposed Bombay Water Supply Project and the forthcoming urban review mission. Unfortunately, time was again severely limited, but it was agreed that representatives of the Bank, probably Messrs. Weiner and Kirk, would visit Bombay in November, at which time the Chief Minister would convene an inter-agency meeting to discuss how to expedite the project for which he still wanted IDA financing.

cc:
Messrs. Wapenhans
Weiner
Kirk

GBVotaw/rwm

President has seen

OFFICE MEMORANDUM

TO: Mr. L. E. Christoffersen

DATE: October 1, 1970

FROM: A. F. Kirk *AK*

SUBJECT: INDIA - Mr. McNamara's meeting with V. P. Naik

1. Mr. McNamara is due to meet with Mr. Naik on Monday, October 5th at 11:50 a.m.

2. Attached is a biography on Mr. Naik prepared by Governmental Affairs Institute. The Bank Group has undertaken several projects in the State of Maharashtra including the Purna irrigation credit made in 1962, loans to the Tata Power Companies and to Tata Iron and Steel Company. ICICI, which has received IBRD loans totalling about \$200 million (net) since its formation in 1955, has its headquarters in Bombay.

3. So far as future lending possibilities are concerned, we are currently investigating the possibility of developing a Bombay water supply and sewerage project and hope that a credit will be made for this during FY 1970 or very early in FY 1971. We are also planning to send in November a further mission, to be headed by Ben King, to study Bombay urban development. An agricultural credit project for the State of Maharashtra and the Jayakwadi irrigation project in the State are included in our fiscal 1972 lending program. Maharashtra is also one of the nine States included in a proposed second power transmission project.

Attachment

Copy for: Mr. Votaw

President has seen



GOVERNMENTAL AFFAIRS INSTITUTE

1619 Massachusetts Avenue, N.W., Washington, D. C. 20036 • Telephone (202) 265-8300

Biographic information on Mr. Vasantao Phulsing NAIK, Chief Minister of Maharashtra State, India, and Mrs. Vatsala NAIK, who are visiting the United States at the invitation of the Department of State. They are accompanied by their two sons, Avinash Vasantao Naik and Niranjana Naik, the Minister's Private Secretary, Mr. Abhyankar and Mr. Alec Peltier, Escort. The program is being arranged by Mr. Ferdinand A. Thar.

V. P. NAIK

Chief Minister of Maharashtra State

Born the son of a farmer and trained as a lawyer, Vasantao Phulsing Naik has been the Chief Minister of Maharashtra, one of India's largest and most important states, since 1963. The job is approximately equivalent to that of a Governor of an American state.

Mr. Naik, who was born in 1913, grew up in a rural area of what under the British was the Central Provinces and is now the State of Maharashtra. He attended college in Nagpur, took B.A. and LL.B. degrees and returned to practice law in his home district. He joined the Congress Party in 1946 and served successively as President of the Pusad Municipality, a member of the state Legislative Assembly; a State Deputy Minister; State Minister of Cooperatives and Agriculture; State Minister of Revenue; and finally Chief Minister.

Land reform, rural self-government by village councils and the introduction of high-yielding varieties of grain have been among his particular interests. He supports Indian Prime Minister Indira Gandhi against the Opposition Congress Party. The Chief Minister attended agricultural meetings in Tokyo in 1958, visited Communist China the same year and made a private tour of Yugoslavia in 1964.

Slightly larger than Arizona in area, the State of Maharashtra has a population of almost 50 million. It is located on the west coast of India, extending from the cosmopolitan port of Bombay west into the central Indian plateau. Bombay and Poona are industrial centers, specializing in cotton textiles, engineering, chemicals, sugar and paper, while the rural areas of the state produce rice, wheat, other food grains, cotton and peanuts. The U.S. has loaned money for power development and industrial projects in Maharashtra, the Peace Corps has about 65 volunteers there; and much of U.S. private investment in India is concentrated in the state, particularly in Bombay.

MRS. V. P. NAIK

Wife of Chief Minister of Maharashtra State

Mrs. Naik also comes from rural Maharashtra and holds a B.A. degree from the same college from which Mr. Naik graduated. She has been active in welfare projects and volunteer social work since 1946 when she was elected president of the Education Sub-Committee of the Pusad Municipality. The Naiks were married in 1941, have two sons (ages 11 and 19) and live in Bombay.

OFFICE MEMORANDUM

TO: Files

DATE: September 21, 1970

FROM: I.P.M. Cargill

*L. Susan*SUBJECT: Annual Meeting -
Mr. McNamara's Meeting with the Indian Delegation

Present: Mr. Y.B. Chavan, Minister of Finance
 Mr. S. Jagannathan, Governor, Reserve Bank of India
 Mr. I.G. Patel, Secretary, Department of Economic Affairs,
 Ministry of Finance
 Mr. S.R. Sen, Executive Director, IBRD
 Mr. M.R. Shroff, Alternate Executive Director, IBRD
 Mr. C.S. Swaminathan, Joint Secretary, Department of Economic Affairs,
 Ministry of Finance
 Messrs. Knapp, Cargill and Kavalsky

The meeting took place at Mr. McNamara's suite at the Royal Hotel from 3 to 3.45 p.m. on Sunday September 20, 1970.

IDA Replenishment

Mr. Chavan congratulated Mr. McNamara on the substantial replenishment of IDA and asked what the prospects for ratification by the U.S. Congress were. Mr. McNamara said that President Nixon had given some evidence that he would use his influence in support of the third replenishment. He would go no further than to say that the outlook was "not unpromising", but he was certainly more optimistic now than a year ago.

Softening the Terms of Bank Lending

Mr. Chavan mentioned that at the Commonwealth Finance Ministers conference in Nicosia, many of the smaller countries had expressed a desire for easier Bank terms for sectors such as agriculture and family planning. Mr. McNamara explained that the terms of lending were related to poverty and creditworthiness and not to the particular project. The smaller countries were probably getting more than their fair share of IDA relative to India for example, but in any case the increment of IDA would at least partially solve this problem. He said that in effective terms the rate at which the Bank lent, as judged by the spread between the Bank's lending rate and the market rate, had gone down. In any case further reductions of the Bank's lending rate would simply represent a diminution of the resources available for IDA.

Non-Project Loans

Mr. Chavan next raised the question of non-project loans. As far as he was able to tell, no governments were opposed to these loans although

President has seen

Executive Directors representing some of these governments had objected to them. Mr. McNamara agreed that in certain circumstances non-project loans were appropriate, and he would be trying to organize support amongst Executive Directors for them. However, to do this would take anything up to 12 months, and in the meantime it was essential to push ahead with project lending for the large amounts envisaged - \$240 million this year and substantially more next year. Mr. Patel argued against this 12 month delay; on the Indian side major revisions of licensing allocations were required and even from the Bank's point of view he did not see that this subsequently made it easier to get this accepted by the Board. Mr. McNamara disagreed and said that what had to be avoided at all costs was jamming another loan down the Board's throats as had been done previously. The really bad precedent would be if we were not able to commit India's 40 percent share of the total. Mr. Patel thought that the 'special case' argument for program lending made it more difficult in the long run, but Mr. McNamara pointed out that it was necessary to reassure the Board that the criteria were not so loosely defined that practically any country became eligible. He advised Mr. Patel not to under-estimate the strength of opposition. This was the one item on which the Board had requested a discussion of principle before further loans were negotiated.

Operational Matters

Mr. Chavan said that his government had finally decided to accept the Bank's policy on procurement. However, they expected that in most projects they would wish to reserve some procurement to Indian suppliers; he hoped that this would be for a small proportion in each case and that the Bank would agree to the proposals. Mr. McNamara did not see these as constituting any serious problem. Mr. Cargill raised the question of India seeking Bank financing of ships and was informed by Mr. Patel that a note had been prepared; there were a number of technical problems however and he asked that someone come over to discuss these. Mr. McNamara enquired about progress on Bank lending for fertilizer plants. Mr. Cargill said that we would be going ahead with Cochin and the 'debottlenecking' loans but Nangal was still, unnecessarily he felt, stalled. The problem there lay with the Bank's desire to have an independent consultant to assist in the choice between two different systems. A compromise proposal was still in the works, but if there was no further action he would go to India himself in November to take matters up at the ministerial level.

Family Planning

Mr. Chavan has recently been appointed Chairman of the National Council on Family Planning and reassured the meeting about the likely success of the program under his guidance. I.G. Patel then informed him, apparently for the first time, that the Bank was considering making a loan for family planning in India. A discussion took place on what the important conditions for a successful program were. Mr. McNamara said that he was encouraged by

the degree of political acceptance. Mr. Sen said that the important constraints were technical and administrative. Mr. McNamara concurred and said that the successful examples of family planning programs, e.g., in Singapore and Taiwan, really amounted to no more than pilot projects.

The Eastern Waters Dispute

Mr. Knapp said that he was encouraged to hear of the progress on the Eastern waters question considering the Bank's involvement with East Pakistan. Mr. Sen said that he did not anticipate quick results on this issue. Mr. Cargill mentioned the need to get together on the flood problem, and suggested that this might prove a suitable point of entry from which to deal with the more general question.

Pleasantries

Mr. Chavan said that they would like to have Mr. McNamara visit India again in the near future and Mr. McNamara indicated that he would indeed be happy to do so. He also congratulated Mr. Sen on his appointment as Chairman of the International Agricultural Economics Association.

cc: Mr. McNamara (2), Mr. Cargill, Mr. Votaw, Mr. Melmoth, Mr. Kirk, Mr. Dunn
Mr. Knapp



54

November 20, 1970

Meeting between Dr. S. R. Sen and Mr. McNamara on the Processing of Bank and IDA Projects in India, November 20, 1970

Mr. McNamara stated he was certain that both the Bank and the Indian Government were very much concerned about the delays which were occurring in the processing of Bank and IDA projects in India. At present 11 projects were scheduled to be presented to the Board in the remaining months of FY71 and 16 projects were scheduled for FY72. In light of recent experience, it was not very likely that all these 27 projects would be processed in time, unless special efforts were made to avoid delays. It was agreed that it was in the interest of both the Bank and the Government of India to ensure that such special efforts were made. Both parties should carefully examine the causes responsible for the present unsatisfactory situation and they should constantly be on the alert to the necessity to act promptly, within their own responsibilities, to minimize any delays which might occur in the future.

In order to achieve this objective, it was further agreed that closer liaison should be established between the Indian Executive Director's office and the South Asia Department with respect to preparing and monitoring time schedules for the processing of Bank and IDA projects in India. Details of the agreed "production control" system are as follows:

- (a) South Asia Department will assign a staff member to work on preparing and monitoring planned time schedules and "critical path" analyses for the processing of Indian projects.
- (b) A full-time staff member would perform the corresponding duty in Mr. Chadenet's office.
- (c) Dr. Sen would ask his Alternate, Mr. Shroff, to assume the responsibility for a similar duty, full time if necessary, in his office.
- (d) South Asia Department would undertake to prepare a progress report on a monthly basis. Dr. Sen would regularly receive a copy. The first such report will be ready November 24.
- (e) Mr. McNamara would meet with Dr. Sen once a month, about a week after distribution of the progress report, together with Messrs. Knapp, Aldewereld and Cargill, to review progress achieved, and to ascertain what future action was required. A first meeting will be held on about December 1.

LEChristoffersen

cc: Dr. Sen (and cleared with)
Mr. Knapp
Mr. Aldewereld
Mr. Cope
Mr. Chadenet
Mr. Baum
Mr. Cargill
Mr. Votaw
Mr. Kirk